

January 17, 1997

MEDICAL CARE 1997 NETWORK ALLOCATION

1. **PURPOSE.** This Veterans Health Administration (VHA) Directive provides policy and procedures for the Fiscal Year (FY) 1997 Network Allocation and the use of these allocations. The President's budget, adjusted for Congressional action, is the basis for the allocation of funds to VHA field facilities.

2. **BACKGROUND.** In FY 1996, Target Allowances were prepared for each Department of Veterans Affairs (VA) medical center and respective Veterans Integrated Service Network (VISN). In FY 1997, the Network Allocations will replace the traditional Target Allowance and will be prepared only at the VISN level. The VISNs will be responsible for distributing operating funds to each facility.

3. **POLICY.** The 1997 Network Allocation process will establish the budget planning base for the coming fiscal year and provide initial budget execution parameters and guidelines.

4. **ACTION**

a. **Format**

(1) The FY 1997 Network Allocation will be prepared by the VHA Chief Financial Officer's Budget office (171). Data to populate the Network Allocation will be provided as follows:

Section I.A - Boston Development Center and Budget Office

Section I.B - Boston Development Center

Section II - Budget Office (This section will not be used)

Section III - VISNs (This section will not be used)

(2) Network Allocations will be prepared at the VISN level. Network Allocations to facilities (Network Sub-Allocations) are at the discretion of Networks with approval required by VHA Headquarters. Each VISN will allocate their FY 1997 operating funds by individual facility and provide their facility specific distribution to the Budget Office (171).

b. **Instructions.** Attachment A provides Network Allocation line item explanations and general guidelines for their application.

5. **REFERENCES**

a. VHA Supplement to MP-4, Part VII.

b. Office of Management and Budget (OMB) Circular A-34.

THIS VHA DIRECTIVE EXPIRES JANUARY 17, 2002

VHA DIRECTIVE 97-003

January 17, 1997

6. **FOLLOW-UP RESPONSIBILITY**. VHA Chief Financial Officer (17) is responsible for the contents of this directive.

7. **RESCISSION**. This VHA Directive expires January 17, 2002.

S/ by Mike Hughes for
Kenneth W. Kizer, M.D., M.P.H.
Under Secretary for Health

Attachment

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ATTACHMENT A

NETWORK ALLOCATION EXPLANATIONS AND GUIDELINES

1. Fiscal Year (FY) 1997 Veterans Equitable Resource Allocation (VERA)

a. The majority of FY 1997 Medical Care appropriation dollars will be distributed to the Veterans Integrated Service Network (VISN) Directors in Section I of the FY 1997 Network Allocation using the VERA system. This system was developed by the Veterans Health Administration (VHA) to move VHA resource allocation to an equitable and understandable resource allocation system.

b. FY 1997 workload-driven resources will be divided into two patient care groups, Basic Care and Special Care. The Basic Care group will consist of lower-cost veteran patients who have what would be considered relatively normal health care needs. The Special Care group will consist of veteran patients who are treated for higher-cost, more specialized, or chronic care such as post-traumatic stress disorder, spinal cord injury, end-stage renal disease, level three and four Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS), long-term institutional care, blind rehabilitation, traumatic brain injury, substance abuse, and chronic mental illness. Approximately 94 percent of the veterans who use VHA health care services are considered to be Basic Care patients. These Basic Care patients have traditionally required approximately 65 percent of the Special and Basic Care Workload Model dollars for their care. The Special Care patients account for only 6 percent of all VHA users, but their care consumes 35 percent of the dollars.

c. The amount of resources devoted to the Basic and Special Care Groups will be the 1996 levels inflated by the increase in the Medical Care appropriation from 1996 to 1997.

d. The Basic Care resources will be allocated to each VISN in Section I of the FY 1997 Network Allocation using a single national price per veteran user multiplied by the count of veteran users in each VISN. Veteran users are defined as all mandatory (category A and X) users that the VISN has seen over a 3-year period of time (FY 1993, FY 1994, and FY 1995). Veteran user data were prepared by the Office of Policy, Planning and Performance.

e. The Special Care resources will be allocated to each VISN in Section I of the FY 1997 Network Allocation using a single national price per special patient user multiplied by the forecasted FY 1997 count of special patient users at each VISN. Special Care patients are defined as the projected number of special patients that the VISN will care for in FY 1997 based upon historical demand from FY 1991 through FY 1995. Forecasts of special patients were prepared by the Office of the VHA Chief Financial Officer.

f. Each VISN's allocation is adjusted by a wage index that represents their cost of labor relative to the national cost of labor. A VISN specific labor index is derived by computing differences in average salary determined at the payroll personnel service dollar subaccount level. Personnel subaccounts were used to make the index as specific as possible for different classes of employees. For example, Registered Nurse (R.N.) average salary at the VISN is compared to R.N. average salary at the national level; clerical personnel average salary at the VISN level is

VHA DIRECTIVE 97-003

January 17, 1997

compared to a national clerical average salary, etc. The labor adjustment is a zero-sum adjustment at the national level, and is applied to a measure of labor dollars which for FY 1997 is the total FY 1995 labor dollars.

g. In addition to the Basic and Special Care workload-driven allocations, Network budgets will be based on several other modeled allocations as follows:

(1) Education Support. Education Support allocations for each VISN are established using a nationally defined pool of resources and nationally defined algorithm. Education support resources are those that were reported in the Cost Distribution Report (CDR) in FY 1995 and the education algorithm distributes resources using a national rate per resident position. Resident positions are those that the Office of Academic Affairs has distributed to the VISN for the academic year 1996/1997.

(2) Research Support. Research Support allocations for each VISN are also established using a nationally defined pool of resources and a nationally defined algorithm. Research support resources are those that were reported in the CDR in FY 1995 and the research algorithm distributes resources using a national rate per Department of Veterans Affairs (VA) and non-VA funded research. VA and non-VA funded research resources were determined by the Office of Research and Development for the year FY 1995.

(3) Equipment. The allocations for Object Class 31 equipment include funding for equipment procured for existing facilities, Automated Data Processing (ADP) requirements, and Activations projects, as defined in subparagraph 1i(7). The allocations provided for equipment will include both 1- and 2-year funds. The distribution of equipment funding is based on a mixture of case-mix data (weighted score of 50 percent), unique patient count by Network (weighted at 25 percent), and Consolidated Memorandum Receipt (CMR) historical purchase rate as a measure of current equipment (weighted at 25 percent).

(4) Non-recurring Maintenance and Repair (NRM). All allocations provided for the NRM program in the FY 1997 Initial Network Allocation are 2-year Medical Care appropriation Object Class 32 funds that will be available for fourteen months beginning August 1, 1997. The FY 1997 NRM funding distribution is based on a 90 percent Boeckh (square footage) index and 10 percent in the national pricing pool of funding with a sliding scale in future years to increase the patient workload components of the methodology.

h. The counts of veterans that are used in the allocations are adjusted to reflect the location of their care. Each veteran's care is pro-rated among the VISNs that did or are expected to participate in their care. This pro-ration technique is referred to as Pro-Rated Persons (PRPs).

i. The pool of resources that will be allocated by the VERA will consist of resources for all the activities allocated on the FY 1996 Target Allowance Section I, Section II, and Section III; plus a proportion of any newly budgeted FY 1997 resources; plus the following items traditionally not funded in previous year's allocation:

(1) Community Nursing Home (Including Homemaker Home Health).

January 17, 1997

- (2) Operating expenses in support of telecommunications acquisitions.
- (3) Tuition support.
- (4) Terminal leave.
- (5) Permanent Change of Station (PCS) for centralized positions.
- (6) Postage except for national programs such as the Information Resources Management Field Office (IRMFO).
- (7) Activations, except for some one time cost and equipment associated with major construction projects. A pool of funds will be available to the Network Director, upon request and approval, to defer some costs associated with major construction projects. The administrative process associated with this pool is under final stages of development.

***NOTE:** These accounts will not be supplemented during the year by the Department of Veterans Affairs (VA) Central Office, therefore VISNs must plan accordingly. Included in Section I funding is funding for all specialized and national programs administered by the facility. Examples of programs are Post-Traumatic Stress Disorder (PTSD), Substance Abuse, Contract Service Centers, programs for women veterans, and Geriatric Research, Education, and Clinical Centers (GRECCs).*

j. The Office of the Chief Financial Officer via the Boston Development Center will distribute additional supportive reports in conjunction with the FY 1997 Network Allocation that will provide details for the allocation process and performance data that could be of assistance in evaluating the VISN impact.

2. The format of the Network Allocation has been modified to account for changes in the cost/obligation bridge reference point.

a. Section I (Modeled Funding) of the Network Allocation is for modeled dollars composed of (A) Basic and Special Care with Labor, Research, Education and Resident Work Limit adjustments and (B) Equipment and NRM.

b. Section II (Non-Modeled Funding) and Section III (Travel) of the Network Allocation form will not be used at this time. Facility specific funding for these items will be provided via Transfer of Disbursing Authority (TDA) outside the Network Allocation process.

3. **Medical Care Program Notes**

a. **Full-time Equivalent (FTE) employment.** In FY 1997 FTE levels will not be assigned during the budget process. Any required accountability and control of supportable FTE will be accomplished at the VISN level. Readjustment counseling (Program 25), trainees (Program 26), and other program specific FTE are identified in the Network Allocation and will be identified in subsequent funding actions. Networks will **not** be assigned a personal services floor, however personal service expenditures should reflect adequate support for planned FTE levels.

VHA DIRECTIVE 97-003

January 17, 1997

b. **Funding for Specialized and National Programs.** Funding for specialized and national programs, such as PTSD, substance abuse, and homeless veterans, whose workload is captured in the VERA model is included in Section 1 of the Network Allocations. A portion of the allotments provided on the Network Allocation in Section 1 will be made available to these programs. Additional funding adjustments may be accomplished during the fiscal year. Funds received after the Network Allocation, which are allocated for a specific program, must be used for that program or returned to corporate headquarters.

c. **Capital Assets.** All funds identified on the FY 1997 Network Allocation for Equipment and NMR are for Object Class 31 and Object Class 32 capitalized assets, as defined in Office of Management and Budget (OMB) Circular No. A-11. The FY 1997 appropriation included language delaying the availability of \$700 million of obligational authority for these object classes until August 1, 1997. These funds, which will then be available for obligation for fourteen months until September 30, 1998, will be allocated under the 2 year (367/80160) Medical Care appropriation as opposed to the 1 year (3670160) Medical Care appropriation. As recommended in the Office of the Inspector General (OIG) Report "Audit VHA Major Medical Equipment Acquisition (Number 5R4-E01-120)" dated September 29, 1995, VISNs will be responsible for informing management at VA medical facilities of the availability of 14-month funds and will develop a schedule detailing the release of funds for equipment acquisition. While the OIG recommendation is equipment specific, the underlying concept, of encouraging the facilities to take advantage of the 14 month time frame for the planning and purchasing of equipment, applies to both object classes.

(1) Equipment. The allocations for Object Class 31 equipment include funding for equipment procured for existing facilities, ADP requirements, and Activations projects, as defined in paragraph 1.i.(7). The allocations provided for equipment will include both 1 and 2-year funds.

(2) NRM. All allocations provided for the NRM program in the FY 1997 Initial Network Allocation are 2 year Medical Care appropriation Object Class 32 funds that will be available for fourteen months beginning August 1, 1997. VISNs must manage lease hold improvements (build out), emergencies, interim projects that arise during the period, and changes or modifications to approved projects and should establish a contingency or "risk pool" for these purposes. VISNs should establish NRM funding policy and procedures such as require facilities to report project savings to VISNs for possible redistribution, use of savings will require prior VISN approval and any change in the scope of a project, project cancellation, or project substitution must be approved by the VISN.

d. **Readjustment Counseling Service (Program 25).** Basic funding, increased costs, and annualizations of FY 1996 commitments for the Readjustment Counseling Service have been included in the Network Allocation; therefore, facilities need not supplement this program from other funds. FTE and funding for each facility are identified on a separate attachment. Funding for employee travel, the fee program, and other additional items will be subsequently provided through the Automated Allotment Control System (AACCS). Allocations specifically identified for this service will not be diverted for any other use.

January 17, 1997

e. **The Health Professions Education Programs** (Program 26: Includes Medical and Dental Residents, Specialized Fellows and Associated Health Trainees):

(1) Allocation of Medical, Dental, Optometry and Podiatry residents and Associated Health Trainees positions, FTE and funding for Academic Year (AY) 96/97 have been allocated facility specific by the Office of Academic Affairs and are included in the FY 1997 Network Allocation.

(2) If trainee positions cannot be filled, local officials in conjunction with Fiscal Service should notify the Office of Academic Affiliations (144), so resources can be redistributed according to national needs. Trainee positions may not be switched between specialties without prior approval of Academic Affiliations.

f. **The Employee Education Programs** (Program 27: Includes Administrative Trainees and funds for centrally-directed educational activities):

(1) Allocation of Administrative Trainees, positions, FTE, and funding have been allocated facility specific by the Office of Employee Education and are included in the FY 1997 network Allocation.

(2) If trainee positions cannot be filled, local officials in conjunction with Fiscal Service should notify the Office Of Employee Education (102), so resources can be redistributed to meet system-wide needs.

(3) The funding for facility directed employee continuing education travel and other costs for postgraduate and inservice training, which through FY 1996 were identified as "CORE PIT", and Tuition Support and Tuition Reimbursement has been distributed in the VERA Modeled Dollars and Travel sections of the Network Allocation.

(4) Funds for centrally-directed educational activities are not included in the Network Allocations. Transfers of Disbursing Authority for centrally directed activities will be issued on a regular basis.

g. **Employee Education System Sites.** Funding and FTE support for the Employee Education System Sites is included on the Network Allocation as a separate line item in Section II. Allocations specifically identified for this purpose will not be diverted for other use.

h. **Resident Work Limits (RWL).** Adjustments of funding and FTE for the RWL restructuring are identified as a separate line items on lines 5A and 5B of Section I. A. of the Network Allocation. The decreases on line 5A are facility specific as assigned by the Office of Academic Affiliations (14). Increases on line 5B are at the discretion of the Network.

i. **IRMFO.** Funding and FTE support for the IRMFOs is included on the Network Allocation as a separate line item in Section II. Allocations specifically identified for this purpose may not be diverted for other uses.

j. **Non-VA Workload Programs.** This includes the State Home (Program 24) , Community Nursing Home Care (Program 24), Fee Medical, Fee Dental, and Contract Hospital programs.

VHA DIRECTIVE 97-003

January 17, 1997

(1) Fee Medical, Fee Dental, Contract Hospital, and Community Nursing Home Care while funded as part of the model, are still considered non-VA workload programs.

(2) The State Home Program will continue to be "earmarked" in FY 1997 and restrictions apply to the funding and workload. If the actual census for any state home category varies by a substantial amount from the assigned level the program office should be contacted to make the appropriate adjustments to workload and funding level.

k. **Employee Travel (Limitation .007)**

(1) Facility Regular. This allocation is provided to cover normal facility directed employee travel requirements.

(2) All Other. These allocations are provided for specifically identified employee travel such as Readjustment Counseling, etc.

l. **Prosthetics**. All available funds for prosthetics have been distributed. Prosthetic funding requirements will be monitored by the Prosthetics and Sensory Aids Service (117C) at the individual facility/VISN levels on the Quarterly Prosthetic Needs/Excess Report.

m. **Leases**. For FY 1997 each VISN will receive the same level of funding for leases as received in FY 1996. A committee has been established to recommend a policy for funding leases in FY 1998 and beyond. With the exception of a new lease for a VHA Headquarters controlled program, VISNs must support all lease expenses.

n. **Items not Included in Network Allocation**. Allocations included in Sections I through III reflect the FY 1997 allocation for all Medical Care requirements except the following:

(1) Allocations for reimbursable costs collected by VA facilities. As indicated in the OMB Circular A-34, funds must be collected from non-Federal sources to receive credit for reimbursement. Reimbursement to the facility will be accomplished via Reports Control Number (RCS) 10-0027, Quarterly Report of Need/Excesses. Those medical centers with demonstrated sharing agreement collections in excess of one million dollars may request, through their respective Regional and/or VISN Director, advance allocations up to the anticipated collection level.

(2) Replenishment for collections received from employees for quarters will be requested on the RCS 10-0027.